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In This Issue

The Volume of Indebtedness in the United States in Relation to Economic Recovery,

BY ROLAND P. FALKNER.

The Management Index

Abstracts and Descriptive Notes of Company Activities Including

Financial Management
Insurance
Office Management
Production Management
Public Relations
Marketing Management

Survey of Books for Executives

The Industrial Discipline and the Governmental Arts, REXFORD G. TUGWELL.

Seasonal Variations in Industry and Trade, SIMON KUZNETS.

The National Industrial Recovery Act—An Analysis, BENJAMIN S. KIRSH.

The Theory of Monopolistic Competition, EDWARD CHAMBERLIN.

Industrial Pension Systems in the United States and Canada, MURRAY WEBB LATIMER.

and others

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The
MANAGEMENT
REVIEW

July, 1933

The Volume of Indebtedness in the United States in Relation to Economic Recovery*

By Roland P. Falkner, *Chief Statistician, National Industrial Conference Board, Inc.*

WE HAVE all heard of the enormous burden of debt under which American enterprise is staggering and on account of which it is about to fall. We have been led to believe that the difficulties of American business in the present situation are the direct result of this debt. In this paper I shall defend the thesis that business is not bad because debts are bad but rather that debts are bad because business is bad. In so doing I shall address myself to the following statement recently promulgated by the Committee for the Nation: "The amount of public and private debt must now be perilously near the amount of wealth."

Let us consider two questions: 1. If the amount of debt were near the amount of wealth would it be a peril? 2. Is the amount of debt near the amount of wealth?

Why should debt be described as a peril? In popular thought on economic matters we too often carry over concepts inherited from past conditions or borrowed from other fields of thought. There is an instinctive tendency to identify debt with improvidence, the debtor with the spendthrift. We think in terms of the consumer and feel that a man who piles up debt merits not our sympathy but our condemnation. We might well be horrified if such a condition became general.

When we think of debt do we think of its rôle in production? Let me paint the picture from another viewpoint. We are accustomed to hear the rôle of credit in our modern life extolled, to listen to praise of its beneficent

* Presented at the A. M. A. Financial Management Conference held at the Hotel Pennsylvania, New York, May 17, 1933.

workings. We are told that credit is a device for transferring funds from the possession of those who lack the energy, ability or sagacity to use them into the hands of those who possess that energy and who at least believe that they possess the ability and sagacity. Credit in other words is an important device of modern society for putting funds to work and increasing the national production. The correlative of credit is debt. If credit is good we cannot condemn debt. They are two parts of the same thing and we cannot praise one and blame the other.

Under normal circumstances debt is the expression of a constructive force in economic life. It expresses hope, energy and enterprise. It represents effort and endeavor. It is a process by which wealth is turned into capital—in other words, by which wealth becomes productive—and is thus an important factor in increasing the national income. The greater part of the long-term debt of the United States, the only debt as we shall see which really enters into the consideration of the debt problem, has been incurred for productive purposes. The first systematic inquiry into mortgage indebtedness of farms and homes made by the United States Census Office as early as 1890 showed this conclusively. Of the total mortgage encumbrance resting upon the farms and homes of the country at that time, 77.6 per cent was created for the purchase and improvement of real estate; these elements in accommodation with others apparently represented at least 90 per cent of the total debt. It is unnecessary to recall that the bonded debt of transportation and industrial enterprises is almost exclusively spent for plant and equipment. Private debt is therefore under ordinary circumstances largely self-liquidating.

The Committee for the Nation declares the amount of debt to be a peril. It is doubtful whether the business executive represented by that Committee would make such a pronouncement under ordinary conditions. Debt, it is to be remembered, neither increases nor diminishes the national wealth. It merely determines who shall have the use of it. In times of prosperity debt in fact increases the efficiency of the national wealth as a productive instrument. In such times there could be no thought that the volume of debt was a peril. So, far from being a peril, it is conceivable that it might be regarded as a blessing—the greater the debt the better off the nation as a whole. The closer private debt approached the national wealth, the greater would be the presumptive efficiency of the national economic structure. However, the pronouncement that existing private debt is a peril was not made in ordinary times. It comes to us in the midst of a deep-seated disturbance of all economic relations. Business has been in the throes of depression, investment almost ceased. Prices have declined disastrously. Under these conditions the problem of the existing debt assumes a different aspect. It may well be that debt is a disturbing factor among the many that enter into the present business situation. There is ground for belief that

just as in times of prosperity debt enhances the national efficiency, in times of adversity it acts as a further damper upon enterprise.

This is the aspect of debt which in recent discussion has received greatest emphasis. We must examine debt, therefore not in its general aspects as a permanent component of our economic system but in the special aspects of debt which are brought about by such a disturbance of the customary economic relations as that which has plagued us in the last three years. In so doing we must use every endeavor to see the situation as a whole rather than fix our attention on a single point. Debt may be the door through which we enter into the economic maze but once in its midst we must guard ourselves against overestimating the importance of this particular portal. We must not relate to debt all the consequences of depressed business activity and falling prices. We cannot, however, escape the fact that debt is a disturbing factor among the many that have thrown business into its present confusion. It will be well to inquire what the possible importance of debt is before trying to estimate its actual importance in the economic turmoil.

The dampening effect of debt upon enterprise is usually explained by reference to the fall in prices. It is pointed out that debt represents a fixed money obligation and that when prices fall the discharge of the obligation requires a greater quantity of goods or greater amount of service than was the case when the obligation was contracted. It is pointed out that when the returns of enterprise dwindle through diminished volume or decreased price the meeting of such obligations imposes a charge upon the product that may be too heavy for it to bear. The standard illustration is that of the farmer's mortgage. The United States Department of Agriculture is authority for the figures on which it has been computed that if a farmer contracted a debt in the year 1928, in 1932 it would have required two and one half times the volume of farm produce that would have been necessary to discharge the debt in 1928. Illustrations similar in character but not so extreme could be drawn from every field of enterprise. Wherever obligations to make present money payments have hung over from the period of prosperity, the difficulty of meeting them has been vastly increased. Debt, as we have indicated, is a normal function of our economic order and the obligations which it represents are based too often on the expectation that prices and other business conditions will remain as they were when the debt was contracted or that volume of business if not the price obtainable for its products will increase. Distress naturally follows when these expectations are not realized. When fixed charges arising out of such obligations become more burdensome on the producer, they impair his efficiency by leaving at his disposal for the operation and upkeep of his enterprise margins too narrow to maintain the efficiency of the enterprise as a whole. The peril of debt then is that in times of depression the actual physical wealth of the nation and the national productive capacity may be impaired.

Debt is of course not the only thing that contributes to such a possible impairment, but it is one of them and therefore it becomes highly important to ascertain how great that debt is and how it works in producing these results.

Before doing so it may be well to clarify some of our ideas in regard to debt. It is well to recall that not all long-term obligations are debt and that not all debts are long-term obligations.

When prices fall all long-term obligations present difficulties. It has been pointed out, for example, that it is just as hard to fulfill the terms of a long-term lease or to pay life insurance premiums as it is to pay the interest on a mortgage. Without contesting the truth of the assertion it may be noted that it overlooks some essential differences of the contracts. The two first named represent payments for what is, after all, a current consideration, while the mortgage represents distinctly a past consideration. In the former case it is less difficult to modify the terms of the contract to meet changed economic conditions than it is in the case of a mortgaged debt.

Another important consideration is the fact that not all debts are long-term obligations. For present purposes the significant question is how far does the fall of prices enter into the problem of short-term debts. It is clear that in such a case it cannot be the degree of decline that has taken place since 1929 but only that portion of the decline which falls in the comparatively brief interval between the contraction of the debt and its maturity. Great as may have been the fall of prices since 1929, the fall during any term of sixty or ninety days within this period—and this is the usual duration of short-term debt—is inconsiderable. It appears only as one of the minor contingencies of conducting business. If this is correct we can, I believe, exclude all short-term debt from the consideration of the debt problem as that problem has been discussed in recent years. To exclude such debts lops off the top of the mountain of debt that some writers have built up by adding to bonds, mortgages and the like bank debts, current accounts of merchants and manufacturers and the debts of individuals to the grocer and the meat dealer and other purveyors of household supplies. No doubt there is at any given time a large amount of such debt which is currently liquidated but debt of this class does not enter into the special debt problem arising out of the general fall of prices.

When I made a similar statement some time ago it was challenged by a silk manufacturer who pointed out that contracts for the delivery of silk involved a nine months' delay and that his organization had lost millions of dollars on these short-term debts during the past three years. It does not seem to be quibbling to reply to such an argument that the significant part of the situation was not in the debt involved but in the fall in prices. Incidentally it may be remarked that the credit term involved is considerably longer than in most lines of business and secondly that few other commodities have fallen so rapidly and so far in price as silk. The situation of

which my critic complained would have existed equally in the case of a cash purchase of silk which was not resold for a period of nine months.

For the reasons explained it seemed proper to confine the inquiry into the amount of outstanding debt to interest bearing debt and insofar as possible to long-term interest bearing debt. By contrast with such debt non-interest bearing debt is usually short-term debt. There may be cases in which, by a continued postponement of payment due, non-interest bearing debt acquires a long term but it is believed that such cases are relatively few, that the very fact of continued postponement makes them rather dubious and that the doubtful character of the debt is not materially enhanced by the economic changes which come with the fall in prices.

Just as all non-interest bearing debt is properly excluded it would be desirable if it were practicable to exclude interest bearing debt of short duration. The methods of computing debt adopted by the National Industrial Conference Board after careful consideration of available data are based largely, though not exclusively, on data regarding the amount of interest paid as revealed by the income tax returns. It is recognized that in such interest payments short-term as well as long-term debts are included but it does not appear to be practicable to exclude the short-term debt.

An estimate of total debt must in any event be pieced out from various sources. For some forms of debt both principal and interest are reasonably well known. In some cases the principal alone is known and interest must be inferred; in other cases interest is known and the principal must be inferred.

Table I shows the volume of debt, principal and interest computed by the National Industrial Conference Board. It is based largely but not exclusively upon official data. It approaches the subject from the standpoint of the debtor rather than the form of debts and shows estimates for the debts of individuals, divided into farmers and non-farmers, those of corporations, and those of government bodies. To what extent the figures given are official records and to what extent they rest upon what we believe to be reasonable estimates of the Conference Board can be seen if we examine briefly the various elements that enter into this table.

Farmers' debt is stated separately from that of other individuals, as the United States Department of Agriculture gives information regarding farm mortgages, the interest charge upon them, and in addition the total interest payments of farmers. The interest on account of debt other than mortgage debt can thus be segregated, and a capitalization of this interest gives an approximation of the principal of farm debt other than mortgage debt.

For non-farm individuals whose gross income equals or exceeds $5,000, the income tax statistics tell the amount paid out as interest. This amount is capitalized to secure the computed principal of the debt. As interest pay-

ments of partnerships are not available, an allowance in both interest and principal is made for those items. For other individuals whose gross income is less than $5,000 there is no record of either the principal of their debt or the interest on it. The strong presumption is that in this group in which the wage earning classes are a predominant element the amount of interest bearing debt is relatively small, but any estimate of its quantity is pure conjecture. In view of the progress of society toward higher standards of living in the period covered by Table I it seemed proper to make the arbitrary allowance for this group of the population larger in 1929 than in 1922.

TABLE I. INTEREST-BEARING DEBT, CLASSIFIED BY BORROWERS
UNITED STATES, 1922 AND 1929[1]
Millions of Dollars

Borrower	1922 Principal	1922 Interest	1929 Principal	1929 Interest
1. Farmers				
Mortgages—end of year	9,100	568	9,241	554
Other debt	4,283	257	2,983	179
	13,383	825	12,224	733
2. Individuals, non-farm, including partnerships	16,933	1,016	24,971	1,499
3. Corporations, non-farm				
Funded debt				
Steam railroads	11,502	539	12,459	581
Electric railways	2,134	99	2,055	99
Central electric stations	2,249	117	6,534[2]	310[2]
Other	11,115	639	25,373	1,447
	27,000	1,394	46,421	2,437
Unfunded debt				
Steam railroads	512	31	251	15
Other	26,888	1,613	40,699	2,442
	27,400	1,644	40,950	2,457
Corporations, non-farm, total	54,400	3,038	87,371	4,894
Total private debt	84,716	4,879	124,566	7,126
4. Governmental debt				
Federal	22,996	990	16,743	680
State and local	7,154	420	13,452	801
	30,150	1,410	30,195	1,481
Total Debt	114,866	6,289	154,761	8,607

[1] This table is a rearrangement, slightly amplified, of figures originally prepared by the research staff of the Conference Board for use by Mr. Charles Merz, in his able article on "Debts, Public and Private: A Vast Problem," featured in *The New York Times*, January 29, 1933.

[2] Census statistics for Central Electric Stations in 1927, used in making this estimate, include some associated enterprises, not included in the 1922 figures, resulting in some overstatement of the figures here given.

The computation of the debt of private corporations rests upon surer grounds. The aggregate payments of interest by corporations in the United States are disclosed in the "Statistics of Income" published by the United States Treasury Department. If the average rate of interest were definitely known, the ascertainment of the principal of the debt would be a matter of

simple arithmetic. However, this rate is not definitely known and it conduces to accuracy to reduce the total interest to be capitalized at an assumed rate to the lowest possible figure. This can be done by separating, from the total, definite information that is available for certain classes of corporations, and applying the calculation to the remainder only. In the reports of the Interstate Commerce Commission and the Bureau of the Census actual or readily computable figures on debt and interest are available for steam railroads, electric railways and central electric stations and their associated enterprises. In building up the figures here given for corporations, a start was made with the $4,894 million paid as interest in 1929 as shown in "Statistics of Income" by corporations other than those engaged in agriculture and related industries. The figure of $46,421 million as the total of "bonded debt and mortgages" was obtained from the same source. Figures for the principal and interest of funded debt for corporations of the classes above enumerated were combined and the funded debt of other corporations then obtained by subtraction. On this funded debt interest was computed on the basis of the average rate for the three utilities plus 1 per cent. In this way a figure for the total interest on funded debt was reached. The interest on unfunded debt was then obtained by subtraction, and capitalized at 6 per cent to obtain the principal of that debt.

Statistics for the principal and interest charges of the federal debt are available in the reports of the United States Treasury Department and from them the National Industrial Conference Board derives a figure for the net debt of the Federal Government. Statistics for states, and for cities of over 30,000 population, compiled by the United States Bureau of the Census are used to ascertain the net bonded debt of these governmental bodies and to it the Conference Board adds its own estimate for the debt of smaller local bodies, publishing all this information in its annual volumes on the "Cost of Government in the United States."

Table II shows that the estimate of debt here presented differs in amount from the estimates of other authorities. It also differs from these estimates in its construction. Other estimates have been made by which endeavor to ascertain the outstanding amount of different forms of debt such as farm mortgages, urban mortgages, bonds, notes, government debt, etc. The material on which those estimates are based is gathered from various sources and it is believed that a certain amount of duplication is involved in them. Take, for example, the case of non-farm mortgages. Estimates of the amount of these mortgages in existence are built up from the holdings of certain institutional creditors, life insurance companies, building and loan associations, banks, and the like, with an allowance for private unrecorded holdings. The debt of corporations on the other hand is derived from the assets and liabilities of corporations as given in the "Statistics of Income." This debt includes mortgage debt which may or may not have been previously included

in the statement of non-farm mortgages. Some critics of the Conference Board estimates who evidently have been unfamiliar with its procedure have stated that it takes no account of urban mortgages. This it will be noted is not correct. It does not indeed segregate urban mortgages but includes them among the debt owed by individuals and by corporations.

The material on which estimates are based is scattered and must be supplemented by estimates which naturally are made in different ways by different investigators. It would take too long to go into a detailed examination of the reasons why the estimates differ but when we find in one of the estimates cited that the debts owed by foreign governments to the United States and the amount of private investment in foreign enterprises and securities is included in the total debt of the United States, we must realize that the investigator must walk warily through a maze of figures if he is to arrive at a reasonable result.

TABLE II. ESTIMATES OF DEBT IN 1929 BY VARIOUS COMPILERS
Billions of Dollars

Compiler	Public Debt	Private Debt	Total Debt
Royal Meeker[1]	42	192	234
G. F. Warren and F. A. Pearson[2]	39	164	203
Lionel D. Edie[3]	33	149	182
Research Department, Goldman Sachs Trading Corp.[4]	33	128	161
Statistical Department, Remington-Rand, Inc.[4]	33	127	160
National Industrial Conference Board	30	125	155

[1] Compiled for Irving Fisher and used by him in "Booms and Depressions," 1932, p. 109.
[2] Farm Economics, published by New York State College of Agriculture, Cornell University, February, 1932, p. 1,668.
[3] *The Iron Age,* January 5, 1933, p. 25.
[4] Manuscript.

It has already been stated that the estimate of the National Industrial Conference Board did not altogether exclude short term debt. It is interesting to note that an investigation conducted by the Twentieth Century Fund and purporting to represent solely the aggregate long-term indebtedness of corporations, individuals and government agencies throughout the United States, issued May 1, 1933, shows an aggregate debt of $126 billion for the year 1929.

It is to be observed that most estimates in regard to the amount of debt which have been published relate to the year 1929. It seems to be generally conceded that apart from the debt of the federal government there has been little or no increase since that year in the main items of debt. On the contrary there is evidence that farm mortgage debt, other mortgage debt, and some other forms of debt have been diminished through liquidation and that these decreases offset the growth of public debt. The first dissent from this point of view which has come to my attention is found in the press notice

in regard to the Twentieth Century Fund investigation. It indicates an increase of long term debt of $8 billion between 1929 and 1932. Sufficient details of this estimate have not been published to enable one to know where the investigators located it. I should, however, be remiss if I failed to notice the point of view contrary to my own.

The inclusion in the Conference Board estimate of interest as well as principal was not a mere incident of the method of computing the principal. It was deliberate and intentional because the problem of debt is not alone a question of its amount but primarily a question of its burden. The problem before us is to what extent the burden of debt has been increased at the present time by the current economic situation.

The problem is what must be paid annually at the present price level. That does not mean the entire debt but only its annual charges and that part of the principal now payable. Whether the burden of debt has increased or decreased may be judged first by a comparison of the amount of goods or services required now to meet the obligation with that which would have been needed at the time the obligation was entered into. Popular discussion of the burden of debt often ignores the fact that a considerable part of the outstanding debt was contracted in periods of low prices. An investigation of the corporate debt of the United States with reference to its origin and maturity made by the Moody's Investors Service published April 27, 1933, shows that the present corporate debt was contracted at the average price level of 1930. This means of course that in comparison with the contracts entered into by corporations with their creditors the increased burden of payment is represented not by the change from the 1929 level to the present level but by the change from the lower 1930 level to the present level of prices.

There is, however, much to be said for the more usual comparison between the present price level and the level of 1929. It may be conceded that in 1929 debtors, in many cases, had had the advantage of a rise in price after the debt was contracted but the fact remains that business and industry was adjusted to the conditions of 1929 and the disturbance of those conditions has brought about in many cases an increase in the burden of the obligations outstanding or created in that period.

It is clear then that so far as interest is concerned its payment in many cases has been rendered difficult by the depreciation of prices. That, however, is not the only thing that has brought many organizations to the brink of insolvency. The decline in the volume of business has been more important. The railroads and public utility enterprises have not suffered by the fall in prices. They pay less for what they buy and receive essentially the same price for what they sell. Manufacturing corporations have suffered more from the fall in prices, but again the prices of materials have not fallen in the same degree as the prices of the products and in many cases

they could be prosperous at present prices if they could attain a normal volume of business.

It is utterly foolish to speak as so many do of the great distress that would be caused by paying off the debt of the United States at current prices. That debt is not due. The difficulty arises not with the entire debt but only with that portion of it that is now payable. How much is payable in the current year, for example, is definitely known for some of the elements of debt but not for all of them. For instance, we know that the proportion of the outstanding public debt of the Federal Government that must be paid in the year 1933 is comparatively small. We know that it will not be repaid but adjusted by refunding operations. We know the same of the public debt of states and other local governments. Only a very small portion is due for a payment this year and this obligation will be met by bond obligations. A chart showing the maturity of corporate debt in the United States compiled by Moody's Investors Service shows that of approximately $350 million a total of only $36 billion is due for a payment in the year 1933.

With respect to mortgages, the other main form of long-term debt, our information is less positive. It is probable that technically the greater part of this debt is due for payment. Creditors, however, do not as a rule seek the repayment of mortgages when due. However the straitened economic situation of individual creditors and the need of corporate creditors for cash has brought about a demand for the satisfaction of mortgage indebtedness many times greater than that which prevails in ordinary times.

It has been the purpose of this discussion to endeavor to measure in its true dimensions the amount of debt and what it means in our economic life. If the arguments which have been presented are correct it appears that there has been a gross exaggeration of the amount of debt and of the consensus that may possibly be ascribed to it. If the arguments that have been presented are correct it would appear that debt, far from being as represented a giant ogre gnawing at the vitals of our economic structure, is only a diminutive bogey man. In less figurative language may I refer to the statement imputed to the Twentieth Century Fund that "There is no positive evidence of a generally intolerable debt burden on all parts of American economic life."

If, then, the debt problem has been reduced from major to minor importance it is clear that its ultimate solution need give us no very serious concern. The Administration is committed to restoring the price level of 1926. If it is successful in this effort it will wipe out entirely the debt problem with which we have been concerned so far as that problem is a result of our present low price level. If on the other hand the Administration should be unsuccessful in its effort and if we should have for some time to come a continuance of the present price level, the gradual adjustment of the outstanding debts to the current price level, however painful it may be for the individual, will not have any serious effect upon the welfare of the nation as a whole.

THE MANAGEMENT INDEX

Abstracts and News Items

GENERAL MANAGEMENT

The National Industrial Recovery Act—Formulation of Codes of Fair Competition

In order to secure executive approval of codes of fair competition under the National Industrial Recovery Act, trade associations or groups applying for such approval must comply with two conditions: 1. they must impose no inequitable restrictions on admission to membership and must be truly representative of the trades or industries or sub-divisions thereof for which such codes are proposed; 2. such codes must not be designed to promote monopolies or to eliminate or oppress small enterprises or to discriminate against the latter. The Act further provides that every code of fair competition shall contain the following conditions: 1. that employees shall have the right to organize and bargain collectively through representatives of their own choosing; 2. that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining a labor organization of his own choosing; 3. that employers shall comply with the maximum hours of labor, minimum rates of pay, and other working conditions, approved or prescribed by the President. Furthermore, the President may, as a condition of his approval of any such code, impose such conditions for the protection of consumers, competitors, employees, and others, and in furtherance of the public interest, and may provide such exceptions and exemptions from provisions of such code as the President in his discretion deems necessary to effectuate the policy declared in the Act.

This bulletin discusses the need for determining the forms of destructive competition that should be eliminated, the need of uniform accounting, labor conditions and trade practices, and gives a suggested outline of a code of fair competition prepared for the guidance of industrial executives, trade associations and groups in considering and formulating methods of procedure to be adopted in effecting compliance with the provisions of the National Industrial Recovery Act. *National Industrial Conference Board,* June 21, 1933. 7 pages.

Washington Becomes the Capital of Business

At the present time value and volume of products are increasing without a corresponding increase of purchasing power. If the curves of things purchasable and of the wherewithal to purchase do not promptly begin to converge, business may encounter a relapse which may be ruinous, if not fatal. It is such a situation which the Industrial Recovery Act is designed to combat inasmuch as its aim is to make production the complement of consumption.

Trade associations will be transformed into the steering gear of industry. Any concern which desires to go it alone may do so, but in traveling alone it will have to proceed according to the trade association rules of fair competition—or stay out of interstate commerce. The powers which will accrue to trade associations will produce a situation characterized by business in government as well as government in business. "The chances are . . . that the boundary between politics and economics

will fade out and that hereafter, government will be more and more economic and economy more and more political." By Theodore M. Knappen. *The Magazine of Wall Street,* June 24, 1933, p. 213:4.

The New Challenge to the Trade Association

The president of American Trade Association Executives points out some of the new responsibilities of trade associations that are comtemplated in the National Industrial Recovery Act. Stressing the importance of rehabilitation of purchasing power, he proposes seven "point-of-departure" questions for business and industry. These "represent fundamental information without which any planning movement, through an association, must fall short of its mark." He asserts that the new partnership of government and business will succeed to the extent that individual companies give to it enlightened, unqualified cooperation. By Roscoe C. Edlund. *Executives Service Bulletin,* June, 1933, p. 1:3.

The Twenty-eighth Economic Conference

Philip Snowden writes that "unless the coming conference can overcome the obstacles which have hindered international cooperation hitherto, it will do no more than repeat platitudinous resolutions which will be thrown into the wastepaper basket by the governments represented at the conference. . . . The cause of past failures is clear. Nations are still obsessed by an economic nationalism." He goes on to state that "tariffs, quotas, and other methods of trade restriction are the root cause of world depression," and concludes that "it would be a miracle if 2,000 persons, drawn from 66 different countries, could reach substantial agreement on the measures to be adopted to restore world prosperity. But if the delegates are impressed by the urgency of the problem, and inspired by a determination to find at least a partial remedy, the miracle may happen." By Viscount Snowden. *Barron's,* June 5, 1933, p. 3:1.

Business Cycles and the Next Five Years

Our business history from 1790 to the present is outlined in 9-year cycles: Cycle 1. Formative, 1790-98; Cycle 2. Expansion, 1799-07; Cycle 3. War of 1812, 1808-1816; Cycle 4. International, 1817-25; Cycle 5. Banking, 1826-34; Cycle 6. Bank, Land, Cotton Speculation, 1835-43; Cycle 7. Mexican War, 1844-52; Cycle 8. Gold, 1853-61; Cycle 9. Civil War, 1862-70; Cycle 10. Reconstruction, 1871-79; Cycle 11. Railroad Construction, 1880-88; Cycle 12. Silver, 1889-97; Cycle 13. Corporate Expansion, 1898-06; Cycle 14. Conservation, 1907-15; Cycle 15. World War, 1916-24; Cycle 16. World Readjustment, 1925-33; Cycle 17. New Deal, 1934-42.

We are at the end of the depression, says the author; the next few years hold bright prospects. The year 1933 compares with the beginning of the Washington, Lincoln, McKinley administrations, each the last year of depression in the 9-year cycle. By Perry O. Crawford. *Management Methods,* June, 1933, p. 251:6.

National Industrial Recovery Act

This pamphlet discusses the National Industrial Recovery Act in relation to trade associations, and suggests what existing associations can do to aid recovery in their own industries. The essentials for setting up a trade association in any industry are given. By John C. Gall and Noel Sargent. *National Association of Manufacturers,* 1933. 14 pages.

Your Industry and the New Government Control Bill

For the first time in over forty years—since the enactment of the Sherman law—industry has the opportunity of licking bad, destructive practices, getting a reasonable price and perhaps taking some profit. The Government is willing if the public—labor and all—are better served thereby. The five broad brackets in the Government partnership program are discussed: hours, wages, production, practices and price levels; and a warning given: "The Gov-

ernment expects leaders to lead. The Government will not do the job. If an industry is important to the cycle of things and fails to clean its own house, the Government will do it. If the leaders fail to lead, the 'weak sisters' may step forward and tell the leaders where they get off." By Joseph Gooch, Jr. *Sales Management,* June 15, 1933, p. 599:3.

A "Model Code" for Self-Governing Industries Under "The National Industrial Recovery Act"

This is a preliminary outline designed to aid industrial executives adapt trade associations to the immediate requirements under the National Industrial Recovery Act. It explains the steps which each individual firm and trade association should take in complying with the provisions of the Act. By Dr. A. P. Haake. *National Association of Manufacturers,* May 31, 1933. 18 pages.

Working the Budget

While the basis of the budget is the forecast of sales, it has been proven that the impossibility of forecasting sales volume during the last few years has not destroyed the usefulness of the budget. In the first place, the establishment of an objective for a given period of time and the mapping of the course by which the objective is to be attained have promoted coordination of the various activities of the business, and have developed an appreciation of the other fellow and his part in the picture. In addition to this, the preparation and working of the budget have often served to give a department head, who has under his direction a particular function of the business, a broader conception of this function in that it affords an opportunity to visualize the department in relation to the organization as a whole.

The attitude of the executive management is an important factor in the successful operation of budgetary control, especially in a period of changing conditions. In the same way that budgets have proven to be invaluable during the last few years, they should likewise serve to keep the various functions of a business organization properly coordinated and adjusted during the period of improvement and accelerated business upon which we are entering. In the same manner in which budgetary control has encouraged economy and retrenchment, expansion and development will be stimulated, and the management of a business that effectively operates a budget and budgetary control will be better able to meet the adjusting conditions. By Gordon Brooke. *N.O.M.A. News,* May, 1933, p. 1:1.

The Administration of Justice

An analysis of the functioning of the judicial system, with suggestions for improvement. Edited by Raymond Moley and Schuyler C. Wallace. *The Annals of the American Academy of Political and Social Science,* May, 1933. 256 pages.

Present Tendencies in Management

Some of the over-all tendencies discussed by Mr. Hopf are: increasing activity of boards of directors and more direct participation by them in the management of the business; keener scrutiny of management by ownership; determination to trim down to essentials, sometimes accompanied by ruthless cutting across the paths of tradition, human relationship, good faith and good sense; increased disposition to participate in group activities within the industry or company.

Outstanding tendencies in organization lie in the direction of smaller units and of decentralization. Important tendencies in finance are toward the reduction of capital values, the write-down of plant, equipment and inventory so as to permit a profitable operating showing, and toward lower margins of profit as a result of the closer figuring of sales prices.

The main tendencies in production are the decreasing emphasis given to it, and the trend toward control of production quantities and schedules by distribution needs. There is noted a decided concentration by management upon the problem of distribu-

tion, a very pronounced tendency toward regarding distribution as the key function in business, and an increasing recognition of the consumer as the controlling element in distribution.

After a consideration of current trends in the field of personnel and in control, Mr. Hopf further discusses the management movement under two captions: the American scene, and international aspects, and draws the conclusion that whatever action management takes for the protection of business must in the end lie within the confines of certain well-defined responsibilities. These are responsibilities to ownership for successful results; to employees for fair dealing; to consumers for fair prices, quality, and service; to the industry for constructive and ethical action; and to society for economic and social advancement. By Harry Arthur Hopf. *N. O. M. A. Forum,* April, 1933, p. 3:5.

Wanted—A New Tariff Policy

Tariff controversy in the past has been largely a matter of whether the rates should be higher or lower. One school of thought has held that the national interests could be best served by high rates which would protect native industries. On the other hand, the opponents maintained that low competitive rates designed to produce revenue would be more advantageous to the national well-being. In the present crisis there is an increased realization that unemployment and reduced purchasing power can be brought about by a loss of exports as well as by increased imports. With this realization, the opinion is gaining currency that our tariff policy should recognize not only protection and revenue but also trading. The author maintains that the only manner in which we can encourage, protect, and insure our exports is by giving greater consideration to the trading feature in any future policy we may adopt. He recommends "a national tariff policy with sufficient flexibility to adjust itself to the shifting channels of commerce; that would provide reasonable protection, revenue for our national treasury, and, at the same time, insure a profitable volume of export sales." By James L. Knipe. *Address before the Annual Meeting of the Export Managers Club of New York, March 14, 1933.* 4 pages.

FINANCIAL MANAGEMENT

Practical Application of the National Industrial Recovery Act

Since the successful operation of the Recovery Act will be largely dependent upon the establishment and maintenance of minimum prices as well as minimum production, distribution and administration costs, industrial statistics are destined to play an increasingly important rôle in all industries coming under the jurisdiction of the Act. Plant capacity, market requirements, material and labor costs, overhead and a host of other factors must be accurately measured if the objectives are to be achieved. It follows that cost systems must be based on sound accounting principles and must be uniform for the members of each industry. "In other words, this . . . act is national recognition of the importance of cost accounting to industry and to the nation." By Edw. Wm. Krueger. *N.A.C.A. Bulletin,* June 15, 1933, Sec. I, p. 1465:12.

Inflation Balloon Incites Thunderbolts

The case against inflation is presented in terms of questions and answers. The possible effects of inflation on employment, corporate profits, debts, foreign trade and the alleged "descending spiral" of prices and production, are reviewed. "No such thing as 'controlled' inflation has yet been discovered by any country," it is asserted. "Many countries have been forced off a sound money standard due to war, foreign debts, etc.; but in all cases they have re-

covered from their depression only after restoring a sound monetary and banking system, starting from a much lower gold price level than when the inflation began." *National Sphere,* June, 1933, p. 13:4.

The Forgotten Creditor

Recognizing that credit is an indispensable factor in the transaction of modern business, the author reviews the current bankruptcy legislation and suggests the manner in which it should be administered. He concludes that industries must give more thought to credit problems in the future and a greater recognition to the importance of our credit departments, not merely as protective media, but also and equally as promotional and developmental media. By Ernest I. Kilcup. *Credit and Financial Management,* June, 1933, p. 8:4.

American Banking Focuses Attention on Costs

Bank revenues have been declining and may continue to decline in view of decrease in loans, scarcity of good credit applications and unprecedentedly low yield on investments. Depreciation in porfolio market values and losses must be charged off; liquid positions must be maintained and reserve accounts for contingencies built up. Such straits in bank management demand microscopical study of costs. In this paper, delivered before the Mid-winter meeting of the New York State Bankers Association, some interesting surveys of bank costs are presented and conclusions as to control of interest rates and operating costs drawn. By George V. McLaughlin. *Trust Companies,* February, 1933, p. 212:5.

Legal Reserves for Industry

Security in banking and insurance is dependent upon the maintenance of adequate reserves. The author holds the opinion that similar reserves would give industry a larger measure of security in times of depression. "Had there been available," he states, "the cushion of cash or near cash reserves, accumulated over years in the profit-earning period, the price of products could have been lowered, markets could have been retained, losses from operation curtailed or modest profits earned and this structure of industrial activity, however reduced, would have retained vitality and provided consumer energy and purchasing power to lessen the shock and hold in check the extreme of deflation and demoralization which has been experienced." Such results, he admits, can only be achieved by concerted action and not by individual organizations. By Richard M. Rambert. *Credit and Financial Management,* June, 1933, p. 18:2.

The Corporation's Responsibility to Its Shareholders

What a corporation can or should do about dividends today depends greatly upon what it did about them ten years ago, and during the intervening years. The corporations which were careful not to make the dividend disbursements that would have been justified by the isolated facts of a year or several years are in a different position today than those which paid out as they earned. Inasmuch as they did not measure their dividends by current earnings in times of surplus they may not be required to consider only deficits in a period of losses. But as the lean years grow in number there comes a time when the best fortified corporations must consider whether to omit dividends, even though reserves are sufficient to permit them. On the one hand, it must be remembered that many stockholders are dependent for their livelihood upon the income from their stocks. But no dividend is justified if it involves risk of impairment of the company's position, for that means, also, impairment of the shareholders' permanent stake.

The National Lead Company hereafter will determine its common stock dividend policy according to current circumstances—according to present earnings rather than past earnings. The same rules do not apply to preferred stock as to common stock. "Nothing but dire necessity would cause the dividend on the preferred stock to be

passed and thus destroy its goodwill value that has been built up during the last forty years," Mr. Cornish says. If a preferred stock is cumulative, it must be paid at some time. If the corporation is sound and full earning of the sums represented by preferred dividends is apparently but a matter of time, the question may really be only one of saving a little interest on borrowing as against the tremendous impairment of share values that would follow, both to the preferred and the common stock. The result would be destructive to the interests of the company and of all shareholders. An interview with E. J. Cornish. *The Magazine of Wall Street,* March 4, 1933, p. 526:2.

Causes and Repercussions of the Faulty Investment of Corporate Savings

Corporate savings play a prominent rôle in the capital formation of this country, of England and of Germany. The tendencies toward cartellization and trustification and toward the separation of ownership and management represent two institutional factors that aggravate the danger of a faulty investment of such corporate savings. The higher the percentage of the total capital formation made up by such submarginal investments, the smaller will be *ceteris paribus* the free supply of loanable funds and the wider the fluctuations of the interest rate in the capital market. The effect of an unwise use of monopoly profits and its effect on the instability of capitalism is alluded to. By Robert Weidenhammer. *The American Economic Review,* March, 1933, p. 35:7.

The Fight for Gold

There are three essential conditions which the international banking center of the world must fulfill: 1. It must be situated in a country whose foreign trade is so extensive that there will always be available an abundant and varied supply of bills of exchange—the most fundamental means of international payments; 2. It must be the world's greatest market for capital, so that securities of any country may be purchased there in the event that bills of exchange are lacking; 3. It must be the world's greatest market for gold, so that international payments may be made with this metal in the absence of both bills of exchange and securities. For almost a century, London expertly fulfilled these three conditions. As a result of the changes wrought by the World War, however, New York was able to assume the dominant position. The worldwide depression and the events growing out of it have caused a new alignment of the several factors, especially gold. There are many indications that London, thanks to the skillful operations of Mr. Montagu Norman, is again in a position to assume the rôle of banker to the world. Paris, on the other hand, has also been strengthening her position and, although unable to capture the prize for herself, maintains the balance of power between London and New York. "For more than ten years," the author concludes, "the big monetary institutions have fought against each other to gain control of the whole apparatus of international exchange. They have ended by shattering it. The victor's prize has disappeared. The task of the forthcoming conference (the London Economic Conference) is to rebuild this apparatus." By Francis Delaisi. *The Living Age,* June, 1933, p. 294:16.

A Working Tool for the Trader

The use of the Dow-Jones hourly averages is explained. The important thing is to stop losses and let profits run, the author maintains. These hourly studies, like all other stock market phenomena, depend upon this first principle of trading. By H. M. Gartley. *Barron's,* April 3, 1933, p. 6:3.

The Post-War Course of Corporate Profits as Determined by Net-to-Gross Profit Ratios

This article presents a record of annual fluctuations in corporate profits from 1918 to 1931, based upon the federal reports, "Statistics of Incomes." It shows emphatically the remarkably sustained earning

power of the years 1922-29, and severe contraction in the depression years 1920-21 and 1930-31. The profit ratio for trade declined earlier than for manufacture in the present depression. By W. L. Crum. *Harvard Business Review,* April, 1933, Part I, p. 336:13.

Accounting Theory and Depression Financial Statements

The application of theoretical principles as affecting various items in currently published balance sheets and income statements is considered. By Lawrence Allen Odlin. *The Certified Public Accountant,* March, 1933, p. 158:4; April, 1933, p. 211:5.

Stock Habits

Considerable study has been lavished on general stock market movements and the ebb and flow of stock "averages." Such studies aid in directing the investor "when" to buy. Once that question is answered, the query arises "what" to buy? A comparison of fluctuations of individual stocks and separate groups of stocks, in relation to movements of the stock "averages" reveals glaring disparities. Movements of individual stocks percentage-wise vary substantially. Some soar, others move moderately, still others tend to lag. Mr. Rhea divides leading stocks into these three groups. Each has been accorded an index number for the purpose of depicting their relative velocities over a period of 15 months which has witnessed many market rallies and reactions. His findings he presents textually and tabularly. In addition, the investor is offered a method for keeping his own records. By Robert Rhea. *Barron's,* May 8, 1933, p. 3:2.

A Method for Measuring and Comparing Utility Securities

To analyze the securities of a public utility, and then by comparison with other similar securities to arrive at an opinion of the relative investment merit, these five major factors should be examined: 1. character of the territory; 2. character and ability of the management; 3. type of business; 4. capital structure; 5. gross revenue.

The first three of these are intangible and thus are open to wide differences of opinion. The other two are more definite and precise. It is only by giving the proper weight to the frequently contradictory factors that one may arrive at a sound conclusion. By J. P. Hickman, Jr. *American Bankers Association Journal,* April, 1933, p. 30:3.

Insurance*

Nationwide Agreement for Limitation of Inland Marine Insurance

Representatives of fire, marine, and casualty companies came before the recent National Convention of Insurance Commissioners in complete agreement on definition and interpretation of insuring powers of marine and transportation underwriters. Plans were made for the carriers to govern themselves through a special committee. This committee will have power to compel compliance and to suspend companies guilty of violations.

If the plans are carried out, one result will be that marine underwriters agree to include the hazards of transportation as a pre-requisite for insuring imports, exports and domestic shipments, and at the same time put a time limit—generally thirty days—in which their coverage shall continue in effect after such merchandise arrives at its destination. *The Eastern Underwriter,* June 2, 1933, p. 18.

Federal Supervision Opposed

It has been claimed that federal supervision of insurance would result in uniform laws and regulations, but there appears to be some opposition to this viewpoint. Insurance Commissioner Brown of

* Insurance abstracts are contributed by P. D. Betterley, Assistant Treasurer, Graton & Knight Co.; Vice-President in Charge of Insurance Division, American Management Association.

Massachusetts has expressed the opinion that substantial uniformity is obtainable without federal supervision. The great obstacle to securing concerted adoption of a given law is that it is most difficult to eliminate or reconcile conflicting views as to what the substance of the law should be. Each state believes that its insurance law should be the model upon which a uniform code should be based. The greater the uniformity the weaker the arguments for federal supervision. *The Eastern Underwriter,* June 2, 1933, p. 18.

Note: At the recent A.M.A. Insurance Conference there was considerable emphasis given to the need of uniformity of insurance laws, policies and practices. Those concerned about this matter, and it does seriously affect insurance coverage and costs, will find much to interest them in the reported proceedings of that conference.—Ed.

Suggested Compensation Insurance Solution

The vice-president of General Re-Insurance Corp. believes that the casualty insurance business needs not so much a new rate making plan as more elasticity in its fundamental operating code. It is suggested that a study of life insurance practice might develop improvements in the compensation field. Mr. Greene is convinced that compensation insurance can never achieve well-being as long as there exists the present wide divergence between the net cost of stock insurance to the insured and that of participating insurance. He frankly states that while the payment of dividends to policyholders of stock companies may run counter to capitalistic theory, nevertheless numerous life companies have been paying dividends to policyholders with no apparent damage.

The high expense ratio of the stock companies must be reduced. Present stock acquisition costs constitute a bar to even approximate parity in expense ratios as between stock and non-stock groups. Mr. Greene further expresses the opinion that there are too many companies in the field and that compensation insurance is a class of business which cannot be successfully conducted as a side line. There must be a substantial volume of compensation business for any company to operate and underwrite that line successfully. Constructive suggestions are made. By W. W. Greene. *The Eastern Underwriter,* June 2, 1933, p. 31.

Abuses Threatening the Insurability of Workmen's Compensation

Unless some drastic action is taken soon to bring the Workmen's Compensation laws back to a reasonable status, and to correct the many abuses incident to their administration and enforcement, there is possibility of a complete breakdown of the whole system. Industry cannot long stand the increasingly heavy burden placed upon it by the liberalization and enlargement of the coverages and benefits of the compensation system, as it now exists. Neither can insurance companies long stand the drain of their resources; the chief sufferers will be those injured employees and their dependents who are legitimately entitled to benefits. Remedial suggestions and many other interesting opinions are advanced by the general manager of the Association of Casualty and Surety Executives. By F. R. Jones. *Address before the Annual Convention of the International Association of Insurance Counsel, Sept. 8, 1932.*

Mutual Men Discuss Loss Payment Methods

Mutual fire companies of Ontario recently considered a plan of paying only half of the insurance carried on farm buildings at time of adjusting loss, the remainder, with interest at 5 per cent, to be paid when a sum equal to the amount of insurance carried is expended in replacing the buildings destroyed, provided they are rebuilt within nine months of time of loss. If buildings are not replaced, the company would then refund half of the premium paid. Another suggestion advanced was that it would be more effective to see that the underwriting is accomplished at the

time the policy is written; that the policy be so written and the amount of insurance placed on each item that it is not more than the company would be willing to pay if said items burned. The aim is to prevent the owner from realizing any profit through loss by fire, and to prevent over-insuring. It is claimed that such a procedure would have a tendency to reduce incendiary claims, and the company's agent would be required to make a more careful selection of the buildings to be insured from a standpoint of actual need. *The Weekly Underwriter,* April 22, 1933, p. 771.

EDITOR'S NOTE—While the above refers particularly to farm properties, there is much food for thought in the suggestion offered. The participation in a loss by the insured would probably have great deterrent effect, and induce prevention efforts generally.

OFFICE MANAGEMENT

Organization: *Job Analysis, Employment, Pay, Tests*

The St. Paul Plan of Adjusting Salaries to Cost of Living

The cost of living is one of the factors to be considered in developing an adequate salary schedule; in this article Mr. Probst explains the St. Paul plan of adjusting salaries on this basis and tells how it has worked since 1922. By J. B. Probst. *Public Management,* June, 1933, p. 163:4.

Personnel Policies During Business Recovery

The character of personnel policies in the period that lies ahead will be determined not merely by the fact of business recovery, but much more by its nature. The process of business recovery will be long drawn out. In many fields deflation has hardly begun. Labor standards are likely to be lowered. Large labor surplus and resultant insecurity will make the personnel department's main task that of stabilizing the psychological relationship of the ordinary worker to the existing industrial system. Ultimately the larger burdens of readjustment that will fall on personnel management will have to be absorbed by public action through regulation of working hours and establishment of an unemployment insurance system. By Virgil Jordan. *The Personnel Journal,* February, 1933, p. 307:5.

Making a Rating Scale that Measures

This paper describes an application of psychological measurement techniques to the construction of a rating scale with real units. The validation of the scale in an industrial situation is an integral part of its construction.

The scale, used for measuring the effectiveness of salesmen in a national organization, is more reliable than earlier rating devices. Reliability coefficients range from .83 to .90. By M. W. Richardson and G. F. Kuder. *The Personnel Journal,* June, 1933, p. 36:5.

Training and Education: *Schools, Libraries, Employee Publications*

Training Executives for Management

"Efficiency," the author maintains, "depends not so much on systems and schemes of management as on the selection of the right type of manpower." The selection of men for responsible positions should be preceded by a carefully planned training program but this training should not stop when the potential executive becomes an actual executive. The author maintains that management should set out deliberately to make executives into better executives; to make competent men into big men. The principles which should govern such a

program are outlined. By Oliver Shelden. *Business Management*, May, 1933, p. 20:4.

What Does Industry Require of the Schools?

The author believes that there are beneficial effects to be derived from a more personal contact between industry and the schools. Such contact would make possible an earlier grading of pupils and facilitate the development of specialized curricula for pupils in each of the several grades. Industry would then have better indices of an applicant's mental ability and manual dexterity. The author also feels that there is a need in industry for apprentice supervisors who would assist young men to develop their natural but latent abilities. By E. J. Fox. *Industrial Welfare and Personnel Management*, May, 1933, p. 6:4.

Records: *Forms, Charts, Cards, Files, Statistics*

An Order Routine that Reduced Costs and Errors

Two of the greatest aids to economical operation of figure work are to make no needless entries and to avoid the opportunity for errors as a means of minimizing cross-checking and correcting. These basic principles are the foundation of the method by which the Jewel Food Stores, Inc., is now handling orders, order-filling, invoicing and stock records. They are saving the company considerable money.

The present method is explained and the things it accomplished for the company outlined: 1. Combines the order and the invoice on one form; 2. Gives a recap of daily shipments out of the warehouse, by items and by departments if needed; 3. Proves the accuracy of billing of shipments; 4. Eliminates hand pricing of shipments; 5. Permits the warehouse to fill the order from the original order form instead of from a retyping of it, thus reducing chances of error as well as clerical expense; 6. Adds elasticity, for it permits filling late-arrival items right up to the minute the truck leaves; 7. Insures accuracy of stock record because this is mechanically reproduced from the proved daily shipments; 8. Gives buyers notice of a warehouse shortage of any item immediately upon return of the order from the warehouse; 9. Gives a weekly and period (four-week) summary of shipments by items and/or departments; 10. Gives the buyer a weekly inventory of all items without any hand or typewriter copying; 11. Gives the individual store manager a complete, up-to-date price list on all items in his stock every time he receives an invoice. Some of the forms used are illustrated. By C. B. Allyn. *Management Methods*, June, 1933, p. 258:5.

Benefit Systems and Incentives: *Pensions, Profit Sharing, Suggestions, Vacations, Stock Ownership*

Vacation Policies in 1933

Some of the practices shown by a review of the 1933 vacation policies of 24 companies are:

Eleven of the 24 companies will grant vacations with pay to all employees irrespective of the particular classifications in which they are included, providing they have fulfilled certain specified service requirements. Four companies will grant vacations with pay exclusively to salaried employees. Seven others will grant vacations to salesmen on commission in addition to salaried employees. One will grant vacations to salaried employees, salesmen on commission, and women classified as wage earners or piece and hourly workers providing the latter fulfill certain attendance requirements. In only one instance will a company grant no vacation with pay during the current year. Two weeks is the most usual vacation period for all com-

panies and all classes of employees. Executives and employees who have had many years of service with a company are frequently granted vacations for a longer period than two weeks.

Fifteen companies reported that they would not require any employees to take vacations without pay. Four said that they were operating on part-time but that this fact would in no way conflict with their normal vacation policy. Two companies will require their employees who have been working half time to take the normal vacation periods but will pay them for only half of that period. Two companies have yearly shutdowns during which employees are not paid. One company requires all of its salaried employees to take at least two days off each month throughout the calendar year with corresponding reductions in pay; fourteen of these days, however, may be accumulated and used as a vacation without pay.

In 10 companies vacations must fall during the regularly assigned vacation period. Seven companies reported that they grant vacations at any reasonable time selected by the employees. The remaining six endeavor to restrict vacations to the assigned period but allow exceptions under special conditions. *American Management Association,* May 22, 1933. 4 pages.

PRODUCTION MANAGEMENT

General: *Promotion, Organization, Policy, Development*

Managerial Control of Overhead

A budget designed to meet varying degrees of activity in a manufacturing plant is described and illustrated. The author refers to the budget as "a tool devised by the accountant which enables the plant manager to issue his instructions—the first step in management responsibility." By Charles Couch James. *The American Accountant,* June, 1933, p. 188:5.

Operating Cost Percentages for 1932

What the average profit or loss percentages for laundries has been for the past two years, what costs decreased in 1932 and what costs increased, and other pertinent data regarding operating cost percentages in the laundry industry are contained in this bulletin. By D. E. Dewey. *Laundryowners National Association Service Bulletin No. 24,* May 15, 1933. 9 pages.

Plant: *Location, Lighting, Heating, Ventilation*

Progressive Modernization

Discussing building modernization, the vice-president of the Otis Elevator Company states that those owners who are able to take advantage of the relatively low cost of labor and materials are profiting by reconditioning their properties. He cites examples of tangible returns that have been realized through modernization programs, and concludes that "if this idea is generally adopted, we will have made an approach to national stabilization of building operations." By J. C. Knapp. *Executives Service Bulletin,* June, 1933, p. 7:2.

Labor Relations: *Collective Bargaining, Employee Representation, Arbitration*

Carnegie Arranges for Company Union

Official intimation of the direction the steel industry's control program is to take appeared recently in the announcement that the Carnegie Steel Co. has adopted a plan whereby representatives of groups of employees will be given a voice in determining working conditions. The plan will also enable the employees to communicate more effectively with the management, and con-

stitutes an intra-company union of informal nature, trade observers have said.

The Carnegie plan contemplates representation for employees ranging from one for each 100 employees to one for each 300 employees, depending on the size of the plant. The plan is to remain in force for the duration of the National Recovery Act and may thereafter be terminated by the management or by a majority of the appointed representatives on three months' notice. It is commented that the plan fits the spirit of the Recovery Act which includes clauses regarding the right of employees to bargain collectively. *New York Journal of Commerce,* June 16, 1933.

Ohio State Federation of Labor

Proceedings of the Forty-ninth Annual Convention of the Ohio State Federation of Labor, held at Columbus, Ohio, October 3-5, 1932. 135 pages.

Shop Methods: *Industrial Engineering, Standardization, Waste, Rate Setting, Time and Motion Study*

The Process Chart

The process chart is one of management's rough measuring tools, similar to the caliper of the mechanic. When properly used, the process chart provides a means of visualizing what is actually taking place and opens the way to improvements in methods, often without expensive changes. Inasmuch as standards are not self-maintaining, the process chart provides an efficient instrument for checking processes when costs increase. In the last analysis, however, the process chart is a rough tool and, when exact measurements are required, management must rely on the camera and microchronometer, just as the mechanic relies upon the more sensitive micrometer rather than the caliper. By A. S. Crockett and J. E. Gillon. *Factory Management and Maintenance,* June, 1933, p. 214:3.

Benefit Systems and Incentives: *Pensions, Vacations, Profit Sharing, Wage Plans, Suggestions, Stock Ownership*

Making Employees Think

One company has organized a "Concentrating Club" in which any employee can become a member, providing he is willing to put in one hour a week outside of working hours, concentrating on how he or the company could do a better job. The club was utilized to forestall further wage cuts by encouraging concentration on ways and means of reducing costs. Valuable suggestions were advanced by the employees. By Jacob Kindleberger. *Factory Management and Maintenance,* June, 1933, p. 221:1.

X

First Careful Preparation—Then the Wage Incentive Plan

"A manufacturer who does not develop and standardize modern methods and equipment before adopting a wage incentive plan, may possibly increase production—but rarely will he reach 25 per cent of the potential increase," says the General Works Manager of R. Hoe & Co., Inc., British machine manufacturer. This company, by replacing old buildings, equipment and methods with new, and by basing a wage incentive plan on the changes, not only reduced costs but increased production 40 per cent. The procedure is explained. By A. J. Graf. *Business,* March, 1933, p. 25:2.

Suggestion System Operations, 1926-1931

Annual data are tabulated from the suggestion systems of 26 establishments of 22 companies. Four-fifths of these systems are known to have continued operations through 1931, although only 14 companies furnished statistics through the latter year. Most of these systems show increases in

number of suggestions submitted, per thousand employees, in 1930 as compared with previous years. The less complete 1931 data show relapses from the 1930 level in most cases. Percentages of suggestions adopted, and the average payment per accepted suggestion, have not shown any general upward or downward movement. By Z. Clark Dickinson. *The Personnel Journal,* June, 1933, p. 16:7.

Industrial Economics: *Labor and Capital, Legislation, Wage Theory, Immigration*

The Southern Negro and the American Labor Supply

Three causal factors are generally recognized as being of primary importance in relation to the migrations of southern negroes —relative social conditions, the economic pressure exerted by the returns from cotton farming, and the demand for labor in northern industrial centers. The relative social conditions have remained fairly constant and may be considered important only insofar as they serve to reinforce the economic influences. During the period from 1919 to 1924, industrial conditions were the dominating influence and migrations seem to have taken place irrespective of the returns accruing to southern agriculture. It is quite possible that agricultural factors will become increasingly more important in the future as new low-cost areas of cotton culture are brought under cultivation and if a machine for picking cotton is perfected. The industrial factors are strong enough, however, to influence negro migration without the aid of agricultural disorganization and, if the expansion of industrial activity should ultimately necessitate a larger labor supply, the industrialists may turn to the South and find a labor reserve of negroes responsive to industrial appeals. By Edward E. Lewis. *Political Science Quarterly,* June, 1933, p. 172:12.

Measuring Unemployment in Buffalo and Lincoln

Actual counts of employed and unemployed by identical methods in selected areas of Buffalo, N. Y., and Lincoln, Neb., showed more severe unemployment in the larger, more highly industrialized city than in the smaller city. In Buffalo only about two-fifths of the men able and willing to work had full-time work, while in Lincoln nearly two-thirds were fully employed. In nearly every industrial group unemployment was more severe in Buffalo than in Lincoln. Unemployment had also been of longer duration in Buffalo. Both cities showed unemployment more severe for the foreign born than for native whites, and unemployment least for men aged 35 to 40. By Frederick E. Croxton and Cleon O. Swayzee. *The Personnel Journal,* June, 1933, p. 23:10.

Technological Displacement of Labor and Technological Unemployment

While there is at present no mathematical or other device by which one could calculate even approximately the proportion of those presently unemployed, which may be ascribed to technological causes, there are, however, enough data available to indicate that this proportion is very large. By Boris Stern. *Journal of the American Statistical Association,* March, 1933 (Supplement), p. 42:6.

Wage Payment Plans Used by Oregon Manufacturers

The following facts are revealed by a study based on 134 replies to a questionnaire sent to 406 Oregon manufacturers employing ten or more workers: 1. Seventy-nine per cent of the industrial workers in Oregon are paid by the day, as compared with forty-seven per cent for the United States as a whole; 2. Only a little over a third as many workers on the average are paid piece rates in Oregon as in the country as a whole; 3. Many Oregon manufacturers are uninformed as to possible means

of increasing their output and plant efficiency by the installation of proper wage payment plans; 4. The arbitrary changing of wage rates in some plants has caused a feeling of distrust on the part of the workers and loss of interest in increasing output; 5. The practice of basing piece rates on past performance rather than scientific time studies, has resulted in the unwarranted failure of incentive wage plans for certain concerns; 6. Textile manufacturers have been most progressive in adopting incentive systems of wage payment and are increasingly tending to follow eastern practice of changing from a day rate to a piece rate. By Clausin D. Hadley. *University of Oregon Studies in Business No. 12,* 1932. 32 pages.

MARKETING MANAGEMENT

Operating Plan Completely Recast to End Price War

Because of vicious price wars among some of the manufacturers producing garments of Palm Beach cloth, the makers of the fabric entered the business of manufacturing suits. In this article, the vice-president of the Goodall Worsted Company describes the disastrous competitive situation which existed, tells of the curative steps that were taken, details some of the methods that were used to line up retail outlets, and states that results have fully justified the undertaking. By William S. Nutter. *Executives Service Bulletin,* June, 1933, p. 3:3.

Can Fashion's Trend Be Forecast?

Marshall Field Wholesale has put its fashion goods manufacturing on a business basis with this four-point program: 1. accurate, frequently cabled style news from Paris; 2. careful interpretation of this information in terms of the American market; 3. laboratory tests of material; 4. merchandising aids for retailers.

Discussing each of these points in detail, the executive director of this wholesale company's silk division states that even as weather predictions now are made with increasing scientific accuracy, so the once chaotic realm of women's fashions has been charted by experts. By S. L. Hypes. *Executives Service Bulletin,* May, 1933, p. 1:3.

"LMC," Too, Makes "Black 1932" Its Peak Dividend Year

Lumbermen's Mutual Casualty Company of Chicago set several new records for itself, even if it was the last year of the world's greatest economic debacle. Its policies are unbelievably simple. But they are consistently followed. They are outlined. By James S. Kemper. *Sales Management,* June 15, 1933, p. 610:2.

Aids for Analyzing Markets in Pennsylvania, Michigan and Illinois

In a series of three pamphlets, statistical data of value in analyzing markets in Pennsylvania, Michigan and Illinois are presented and their use explained. *Bureau of Foreign and Domestic Commerce, United States Department of Commerce,* 1933.

Salesmen: *Selection, Training, Compensation*

Are You Paying Too Much for Salesmen's Auto Allowances?

A recent study undertaken to determine what constitutes fair automobile allowances resulted in the compilation of a table of ideal operating costs for light cars when driven from 5,000 to 35,000 miles per year. The ideal costs per mile naturally varied inversely with the average annual mileage. These ideal costs were compared with the actual allowances paid by a number of companies and it was found that 97 per cent of the cars considered fell below the ideal costs plus an additional cent per mile

for the several gradations of yearly mileage. Any allowances which fell between the ideal cost and a figure not exceeding the ideal cost by more than one cent were considered to be fair to both the salesmen and the employers. An itemized table of the estimated mileage costs for the various annual mileages is illustrated. *Sales Management,* June 1, 1933, p. 559:2.

Maintaining Manager Morals When Sales Are Off

A small chain organization is meeting this problem by encouraging more frequent meetings of its employees. Discussion of common difficulties and actual experiences arising out of these difficulties have been found to sponsor real enthusiasm for renewed effort. The company has adopted the policy of discussing its financial condition frankly with its employees so that necessary wage-cuts may be effected without undue resentment on the part of the personnel. The performance of the several managers is judged not on the absolute volume of business done but on periodic ratios between an individual manager's business and the total amount of business transacted by the company. By Norman Hoefeld. *Chain Store Age,* June, 1933, p. 55:2.

Our Rookie Salesmen Must Face Prospects in Three Days

Rex Cole, Inc., world's largest distributors of General Electric refrigerators, believe in theoretical sales instruction, but they also believe that the way to learn to swim is to get into the water. Concerns that do not have the resources or the time to give new men long preliminary training will be interested in Rex Cole program. Its aim is to get men into the field quickly and economically. It is outlined. By Lawrence R. Hills. *Sales Management,* June 15, 1933, p. 600:3.

Retailing

Operating Expenses, Margins, Net Profits, Stock-Turns in Retail Businesses

This chart presents percentages on operating expenses, margins, net profits, and stock-turns in each of the following: drug stores, grocery stores, meat stores, shoe stores, department stores, specialty stores, hardware stores (classified by volume of sales and population), beauty shops, furniture stores, stationery stores and grocery chains. A table is also given which shows how much a salesperson should sell to earn a given salary. *Merchants Service Bureau, The National Cash Register Company,* 1933.

The Location Structure of Retail Trade

A study of the local structure of retail trade in Baltimore, including an analysis of retail trade in the central shopping district, in the mid-city shopping district and the outlying shopping district. *Domestic Commerce Series No. 80,* 1933. 42 pages.

Wholesaling

Economic Phases of the Wholesale Market

Wholesale trade occupies an important position in American economic life. The industry as a whole handled a volume of business valued at more than $69,000,000,000 in 1929. Employment was given to 1,605,042 people and more than $3,000,000,000 was distributed in the form of salaries and wages.

Wholesale trading is an ancient institution with its roots deeply imbedded in the beginnings of civilization. That the wholesale merchant continues to flourish today in spite of a number of developments which tend to eliminate him is an interesting example of the survival of economic institutions. The rise of chain store systems and the spread of "direct selling" by manufacturers have given the old-line wholesaler severe competition. His ability to survive rests upon the economic principle of spe-

cialization. If he will take full advantage of his position as a specialist with all that this implies, his elimination is not as certain as his critics have been so ready to predict. The available facts indicate that he has certain potential advantages over competitors, which are evidenced in relatively low operating costs, and which seem to justify the conclusion that he will continue to play an important rôle in the modern distribution system. By Nathanael H. Engle. *The American Economic Review,* June, 1933, p. 189:11.

Wholesale Distribution

Summary for the United States. Fifteenth Census of the United States: 1930. *United States Department of Commerce, Bureau of the Census,* 1933. 137 pages.

Survey of Books for Executives

The Industrial Discipline and the Governmental Arts. By Rexford G. Tugwell. Columbia University Press, New York, 1933. 241 pages. $2.50.

The thoughts which have dominated Professor Tugwell's book are stated briefly in his own concluding words, when he says:

"Our problem is to liberate technique by good management. . . . Impatience is . . . the purest source of revolutionary attitudes. . . . The faith that we are on the verge of great things for humanity will not see itself balked for long because it involves the abrogation of certain privileges. . . . We are entering on the few years or decades of what choice remains to us, but that choice is not whether technique shall be given its opportunity for service, but only in what way that opportunity shall be prepared for. . . . We can experiment now, and we ought to do it before it is too late. Otherwise we are surely committed to revolution. . . .

"Any social theorist . . . must write and talk against time with and against the opposing pressures of stubborn privilege on one side and dark destructive intention on the other, which threaten to obliterate civilization between them. . . . Reason seems sometimes a feeble instrument among these much more powerful ones . . . and yet there is no escape from the effort. There is a kind of duty among civilized beings now not to desert reason, but to press its claims insistently."

From the buoyant optimism of 1929 and the "new era" to the pessimism of the early months of 1933, the pendulum has swung unduly wide. Yet no one who has any measure of the burden of human suffering which has resulted from the present depression can fail to sympathize with the fervent protest contained in Professor Tugwell's volume. Nevertheless such sympathy should be no bar to criticism. He argues for an increasing rule of reason. But it may be an equally valid contention that the world has today an excess of adequately sound reasoning applied to a shortage of real and properly interpreted facts.

If we grant Professor Tugwell's premises, we may not disagree so radically with his conclusions—but many of his premises seem open to serious question.

He assumes that the money volume of industrial profits is a major factor in our national economy. Yet, if these profits are measured as the excess of the net income of *all* corporations over a normal interest rate on money actually invested, it is difficult to find statistical evidence that such total, year in and year out, exceeds an average of 3 per cent of the national income. The belief in abnormal profits to be made from investments in corporation equities was one of the chief delusions of the "new era." The "new deal" should not repeat the same error.

Professor Tugwell, in addition, makes too sweeping a generalization when he says, "Also we can add to our capital in wrong

ways. For instance, its chief source at present is not individual savings or governmental surpluses, as it ought to be, but corporate surpluses, which are transformed into industrial equipment by individual businesses without any likelihood of efficiency in use." Yet nominal corporation surpluses, even in prosperous times, are only about 3 per cent, and real surpluses about 2 per cent, of the national income, as compared with normal capital requirements which tend to exceed 10 per cent of such income.

From the standpoint of the trained personnel manager certain other of Professor Tugwell's assumptions will seem to be of doubtful validity. He says, "The person who tends machines is in terrible circumstances. . . . Men have always been aware of the degradation involved in any work they had to do." Yet, it requires only a very moderate experience in highly mechanized production to show that the real labor surplus lies among those who are contended only with smooth-running routine work, and that the great difficulty is to develop the skilled tool makers, machine adjusters, and special foremen required by modern production processes. Nor will workers in organizations controlled—or rather led—by modern professionally-minded executives respond with any enthusiasm or real conviction to Professor Tugwell's description of their degradation.

The experienced production manager will also disagree when Professor Tugwell says, "I believe we are within a stone's throw of the end of labor. . . . We know how to make machines do nearly everything." He may lack absolutely definite statistics, but he will have little difficulty in convincing himself that, in our present economy, the workers on repetitive processes of all kinds which might lend themselves to an early mechanization, constitute, at a maximum, only 10 to 15 per cent of the total gainfully employed. He may be professionally interested in seeing such mechanization brought about, but he will not count upon it for revolutionary changes in standards of living.

However, with all its defects of fact and assumption, Professor Tugwell's argument for a planned and cooperative individualism "under an industrial democracy with qualification tests," as an alternative to the threat of state capitalism on the one hand, and to the excesses and wastes of unrestricted competition on the other, should not be disregarded by industrial and business executives. Such executives will find themselves wholly in agreement with many of the author's contentions. Furthermore, as an active member of the so-called "Brain Trust" and one of the experts in attendance at the World Economic Conference, the author's points of view have their special current significance, while his specific proposal for a "United States Industrial Integration Board" to function in cooperation with established trade associations is very largely embodied in the current plan of the Federal Administration for industrial recovery.

M. C. Rorty.

Seasonal Variations in Industry and Trade. By Simon Kuznets. National Bureau of Economic Research, New York, 1933. 455 pages. $4.00.

A systematic account of the rôle played by seasonal variations in production and prices. The way in which these changes dovetail into one another; the way in which they affect and are affected by changes in industrial equipment and in stocks of commodities; the alterations to which seasonal variations are subject from year to year and over longer periods; and the relations of seasonal to cyclical and secular movements are set forth.

Part I contains a discussion of the economic problem of seasonal variations and their statistical measurement. Average seasonal variations in selected groups in industry and trade are treated in Part II. The variability of seasonal movements is discussed in Part III.

In Appendix I will be found indexes of seasonal variations in the flow and stocks of commodities and in other aspects of economic activity in the United States, includ-

ing seasonal indexes for the following industries: food products; textiles; automobiles and related products; construction and construction materials; miscellaneous.

Appendix II gives the sources of seasonal indexes used in the study but not included in Appendix I, and in Appendix III are listed the lacunæ in statistical data revealed by the study.

The National Industrial Recovery Act—An Analysis. By Benjamin S. Kirsh. Central Book Co., New York, 1933. 150 pages. $2.50.

This book reviews the economic conditions leading to the enactment of the National Industrial Recovery Act and discusses its industrial control provisions and what they mean to business executives and workers, from the legal point of view.

The extent to which trade associations have been strengthened through liberalization of anti-trust laws by the Act is considered, as well as how recalcitrant minorities in an industry can be controlled through voluntary codes of fair competition or under compulsion of Presidential codes and licenses. The author indicates the extent to which labor's grievances under the Sherman Act have been overcome under the National Industrial Recovery Act and the degree of participation intended for labor in preparation of codes of fair competition dealing with wages, hours and fair standards. The differences between the Sherman Act and the National Industrial Recovery Act in application to trade associations and labor is explained. The book also contains a skeleton outline of the sections of the Act.

Can Business Build a Great Age? By William KixMiller. Macmillan Company, New York, 1933. 320 pages. $2.50.

A presentation of the case for capitalism. It lies within the power of the business men within the United States, the author says, to determine whether capitalism "is going down to defeat, carrying with it the tragedy of mankind, or whether we shall have progress of which there has hitherto been no hint."

"The trouble with the world is not the use of capitalism but its misuse. The trouble with the world is not *laissez faire* but too much interference with 'supply and demand.' The trouble with the world is not too little government but too much government. The trouble with the world is not too little planning but too much artificial control." The author pleads for a better capitalism.

Federal and State Tax Systems. By Tax Research Foundation. Commerce Clearing House, Inc., Chicago, 1933. 209 pages. $10.00.

The fourth edition of this report presents tax charts and tables depicting the taxing systems of all the states, the United States, and thirty-eight foreign jurisdictions. It includes forty tables describing the extent and nature of the application of each taxing method by the forty-eight states and tabulations of the revenues derived. The essentials of all the taxing systems are presented in chart form, including bases, rates, collection, administration, distribution.

The Theory of Monopolistic Competition. By Edward Chamberlin. Harvard University Press, Cambridge, 1933. 213 pages. $2.50.

Competition between goods which are but imperfect substitutes for each other has become more and more important in the modern business world. Unrestricted competition, in other words, is qualified by monopolistic tendencies and influences; yet the result is never more than a qualified monopoly. Under these circumstances, it is necessary for students of economics to combine the theories of competition and of monopoly into a single explanation of prices which are affected by both forces. Professor Chamberlin has in this monograph restated the theory of value as a synthesis of the two.

There are chapters on the following

topics: value under pure competition; duopoly and oligopoly; the differentiation of the product: monopolistic competition; product differentiation and the theory of value; selling costs *vs.* production costs; selling costs and the theory of value.

The Appendices cover: mathematical theories of duopoly and oligopoly; the cost curve of the individual producer; pure spatial competition; urban rent as a monopoly income; some arguments in favor of trade-mark infringement and "unfair trading."

Economic Conditions in Foreign Countries, 1932-1933. National Industrial Conference Board, New York, 1933. 61 pages. $2.00.

This study is valuable as a background to the International Economic Conference now being held in London. Before discussing conditions in individual foreign countries, the pertinent and timely problems arising out of international trade, international movements of gold, commodity prices, foreign exchanges, the prospects for currency stabilization, as well as the relationship between currency depreciation and business activity, are surveyed and analyzed.

Aside from the omission of special articles by foreign correspondents, which are now being issued separately, the volume conforms to similar studies which the National Industrial Conference Board has been publishing regularly since 1928.

Credit Policies of the Federal Reserve System. By Charles O. Hardy. Brookings Institution, Washington, D. C., 1932. 374 pages. $2.50.

An analysis of post-war credit policies and an appraisal of the services of the Federal Reserve System, as well as of the limitations within which it must necessarily function.

During the post-war period, there has been considerable opportunity to test the ability of a central banking system in the United States to accomplish the ends of economic stabilization which were hoped for. Mr. Hardy deals with the fundamental problems of central banking policy, namely, the purposes which an organized banking system should seek to accomplish, the efficiency which such a system has at its command, and the tests by which it can gauge the success of its efforts. He discusses the major and the minor standards which a central banking system ought to attempt to reach and the efficacy of the Federal Reserve System's technique in achieving these standards.

Problems in Foreign Trade. By George B. Roorbach. McGraw-Hill Book Company, New York, 1933. 512 pages. $5.00.

This Harvard problem book presents a number of cases designed to develop an understanding of the principles of international trade and their practical applications in the formulation of foreign trade policies and in the development of methods for the carrying on of commercial transactions.

Magazine Publishing. By Lenox R. Lohr. Williams & Wilkins, Baltimore, 1932. 328 pages. $4.00.

This volume discusses the various problems faced by the magazine staff. It is designed as a manual, including consideration of the problems and details relating to organization and management. There are chapters on the editorial function, the use of illustrations, paper and ink, printing, the selling of advertising space, circulation and postal procedure. A bibliography is appended to the text.

Industrial Pension Systems in the United States and Canada. Vol. I and II. By Murray Webb Latimer. Industrial Relations Counselors, Inc., New York, 1933. 1195 pages. $10.00.

A wealth of experience concerning the operation of industrial pension systems is drawn together within the covers of these two volumes. Emerging from this experience are very definite principles and standards which should be invaluable to any ex-

ecutive charged with the responsibility of directing or establishing a pension plan.

Bryce M. Stewart points out in the Foreword to this study that "in no other field of industrial relations, has management assumed a financial burden at all comparable with the liabilities of pension systems." The funding of the accrued liabilities constitutes the most immediate of the many problems arising out of industrial pension plans. Only 30 per cent of these liabilities were funded on January 1, 1931, and a substantial part of the funds provided were subject to recapture upon short notice by corporate boards of directors. Although improvements have been made in certain instances during recent years, not more than 8 per cent of the employees covered by pension plans in May, 1932, were in companies which offered guarantees "adequately financed on sound actuarial bases."

Aside from any ulterior interests which industry may have in the matter, the maintenance of favorable public opinion and employee morale requires it to adopt some program designed to care for aged employees. To be truly effective, the program must possess the virtues of security, flexibility and impartiality. Factors which have been inhibiting these objectives are carefully analyzed and concrete suggestions are advanced for eliminating them.

The material presented is remarkably well organized and each section of the study is supplemented by a carefully written summary. Most of the statistical material is relegated to the Appendices where one may find details concerning all phases of the plans studied.

J. E. H.

Trade Union Pension Systems. By Murray Webb Latimer. Industrial Relations Counselors, Inc., New York, 1932. 205 pages. $2.50.

This study is designed to supplement "Industrial Pension Systems in the United States and Canada." In contrast to industrial plans, trade unions commonly grant lump sum benefits; they provide homes for the aged; they exclude from their rolls members who are occupationally disabled, and they frequently issue pensions to widows and mothers of members. Like the industrial plans, however, their financial condition is precarious. The democratic nature of trade unions, together with their ambitious assumption of responsibilities, have caused frequent departures from actuarial soundness. Unsatisfactory experience with pension plans is causing an increasing number of trade unionists to turn to the federal and state governments for old-age relief.

The author concludes that, despite their obvious limitations, trade union plans "cannot be counted as complete failures, for they have been the means of distributing many millions of dollars to many thousands of union members and their widows who might otherwise have been compelled to rely for support on the uncertain resources of local charity."

Prices and Production. By Friedrich A. Hayek. Macmillan Company, New York, 1932. 112 pages. $2.00.

In this series of lectures, the Director of the Austrian Institute for Business-Cycle Research describes the two-dimensional nature of modern capitalistic production and attempts to indicate the change in price margins which result from a lengthening or shortening of the production processes—i. e., of the ratio between the production of producers' and consumers' goods. Hayek's thesis is that the business cycle is caused by maladjustments in the productive processes, brought about by credit policies inconsistent with the voluntary saving habits of the economic community. He condemns "a little inflation" as a corrective measure in a period of depression; he maintains that a stable price level would not eliminate the cycle; and he advances the opinion that recovery is dependent upon a "speedy and complete adaptation . . . of the structure of production to the proportion between the demand for consumers' goods and the demand for producers' goods as determined by voluntary saving and spending."